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COMPANY PROFILE

- a Crown corporation of Nova Scotia established in 1981 to acquire and manage, in partnership with the private sector, participating interests in projects to develop petroleum, energy and minerals and related industrial activities.
- holds major offshore petroleum rights, including a 10% interest in the Venture Gas Project
- administration funded by internally generated cash flow

1984/85 HIGHLIGHTS

- participated in 6 exploration wells offshore Nova Scotia
- negotiated agreement for sale of NSRL share of natural gas exported from Venture Gas Project
- commenced 3 year province-wide gold/mineral exploration program managed by Inco

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MESSAGE FROM THE PRESIDENT

Where we've been

Exactly three years ago NSRL, on behalf of Nova Scotians, entered the oil and gas industry by way of a substantial investment in Scotian Shelf exploration. Although we have participated in other resource-related ventures, for example coal mining and coal liquefaction, our pattern of growth has been dictated by the east coast offshore. In three years we have participated in 15 exploration wells and our 10% interest in the Venture Gas Project is a solid and realizable asset that will eventually generate major cash flow.

The offshore exploration and Venture pre-development expenditure charts on page 2 illustrate the magnitude of NSRL's growth since March 1982. During the period 1982 to July 1985 the Company's fulltime staff has grown from 2 to 8 persons, yet office administration costs have remained reasonable: the net non-capitalized portion of such costs increasing from just below $400,000 to just under $600,000 — and this despite project commitments requiring participation in some 22 technical and operating committees that meet in widely varying locations. Our net administrative costs are still met from the interest earned on internally generated funds. Since 1982 the Company has not required a capital appropriation from its shareholder.

Engineer Terry Freckelton and receptionist/secretary Christie Brown shown at NSRL's newly installed computer facility.

Where we are

The recently announced changes to federal energy policy and the termination of the Petroleum Incentive Payments program signals the conclusion of the Company's initial offshore phase and a reorientation of its investment strategy.

During the continuance in 1985/86 of the PIP "grandfathering" period, we will seek to participate in another 4-6 exploration wells in promising shallow water areas of the Scotian Shelf. In June our first self-operated project — a $1.6 million PIPable seismic program near Sable Island — will be carried out. The magnitude of NSRL's subsequent offshore exploration will be determined by:

- the timing and nature of post-PIP exploration incentives, which we believe will be announced by the federal government later in 1985
- availability to Canadian operators and joint venturers, including NSRL, of attractive petroleum exploration rights on the Scotian Shelf, and
- underlying confidence in the investing petroleum industry that there will be no significant further deterioration of world oil prices.

The Company will submit a proposal to federal energy authorities to establish a system of transitional post-PIP incentives that would enable NSRL, and Canadian companies in a similar position, to continue some level of offshore exploration and ultimately to realize the value of discoveries already made.

Meanwhile, the Venture Gas Project is moving closer to the development stage. This is attested by the recent signature by Venture producers, including NSRL, of long term export gas sales agreements and the planned filing before

regulatory agencies in Canada and the United States of gas export and import applications later in 1985. We strongly believe confirmation of the proven gas reserves level required to support these sales will be achieved in the near future.

Signature of NSRL's export gas sales contract in NSRL Boardroom. From rear left counterclockwise: Lee Horne, John French, Peter Outhit, Richard Morel, President Algonquin Gas Transmission, Boston and Chairman of NESP Supco.

Where we're going

To broaden NSRL's investment base, utilize its established assets and create additional cash flow, we have identified a number of near term opportunities. Our staff and consultants are pursuing these avenues. At a time of relatively flat offshore activity, it makes good business sense to consolidate our position and move to prepare for the upsurge we believe inevitable.

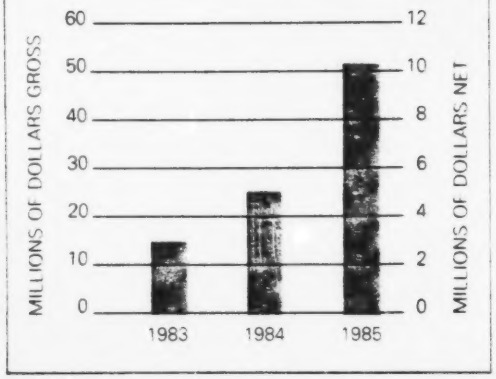
We will also restructure our current loans on a longer term basis in anticipation of a Venture onstream date of 1990/91 while allowing flexibility to fund new projects during the interim.

In short, having evaluated our assets, we see real opportunities for growth. NSRL's future course will respond to a broader range of energy-related investments. We view the future with confidence.

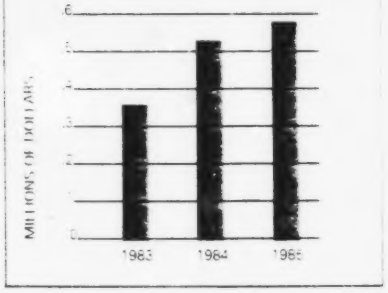
Peter Outhit

THREE YEAR REVIEW OF OPERATIONS

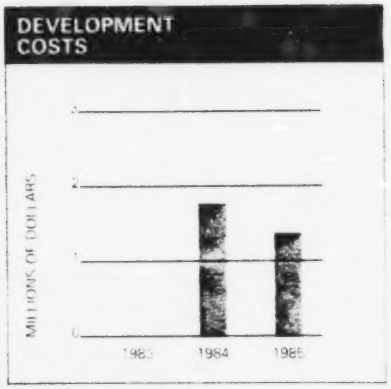
EXPLORATION COSTS



ADMINISTRATIVE EXPENSE



DEVELOPMENT COSTS



THE VENTURE GAS PROJECT

Reserves

During the year three exploration wells were drilled or commenced for the purpose of confirming natural gas reserves to meet the VGP participants' anticipated long-term gas sales requirements. These were West Venture C-62 and N-91, drilled on two fault-separated structures just west of the principal Venture structure, and the Thebaud I-93 well. In September 1984 downhole mechanical problems and extremely high pressures below 17,000 feet resulted in loss of control of the N-91 well and some deep gas flow to shallower zones. The apprehension of similar problems at depth with the C-62 well resulted in termination of drilling that well without full testing. On March 27, 1985 the Thebaud I-93 well was spudded at the southwest end of Sable Island in order to delineate upper zone reserves previously established and to seek additional gas reserves as an exploration well at deeper levels.

Because no additional reserves could be attributed to two promising West Venture structures despite indicated hydrocarbon potential, the VGP participants revised the VGP development "base case" to include proven and probable reserves from the Venture, South Venture and Thebaud structures. After intensive review the VGP participants agreed upon base case proven and probable reserves of about 2.35 trillion cubic feet (66.81×10^9 cubic meters).

Export Gas Sales

During the year three of the four VGP participants - Mobil, Petro-Canada and NSR(V)L - reached agreement to sell their shares of approved export volumes from the VGP to purchasers serving northeastern and mid-Atlantic United States markets. Mobil's share will be sold to New Tenn Company, a subsidiary of Tenneco Inc., and the other sales are to NESP Supply Corp., owned by Algonquin Gas Transmission Company, Texas Eastern Transmission Corporation, and Transcontinental Gas Pipe Line Corporation. The fourth VGP participant, Texaco Canada Resources Ltd. has indicated its intent to sell its share to NESP Supply Corp. These significant steps were commemorated at a ceremony in Halifax attended by representatives of the VGP participants, the prospective purchasers, and governments (see photo next page).

Detailed gas sales contracts will be concluded and signed shortly and filed with the VGP participants' planned gas export application to the National Energy Board. The Company's contract contains a negotiated price formula which is competitive with other energy sources in the target markets and remains flexible and adjustable over the 20 year contract term. The Company considers the VGP gas sales contracts meet the policy criteria of Canadian and United States regulatory agencies.

Optimization of VGP Facilities Cost

Venture base case revisions coupled with a detailed analysis of facilities design and cost by the VGP task force has resulted in a significant reduction of construction costs below prior estimates. The cost of offshore field and pipeline facilities and the landfall terminal and gas plant is now estimated at $2.45 billion (1984 Canadian dollars). The cost of the onshore trunkline from the gas plant to St. Stephen on the Maine/New Brunswick border is expected to be in the order of $450 million, bringing total costs to $2.9 billion.

VGP Planning

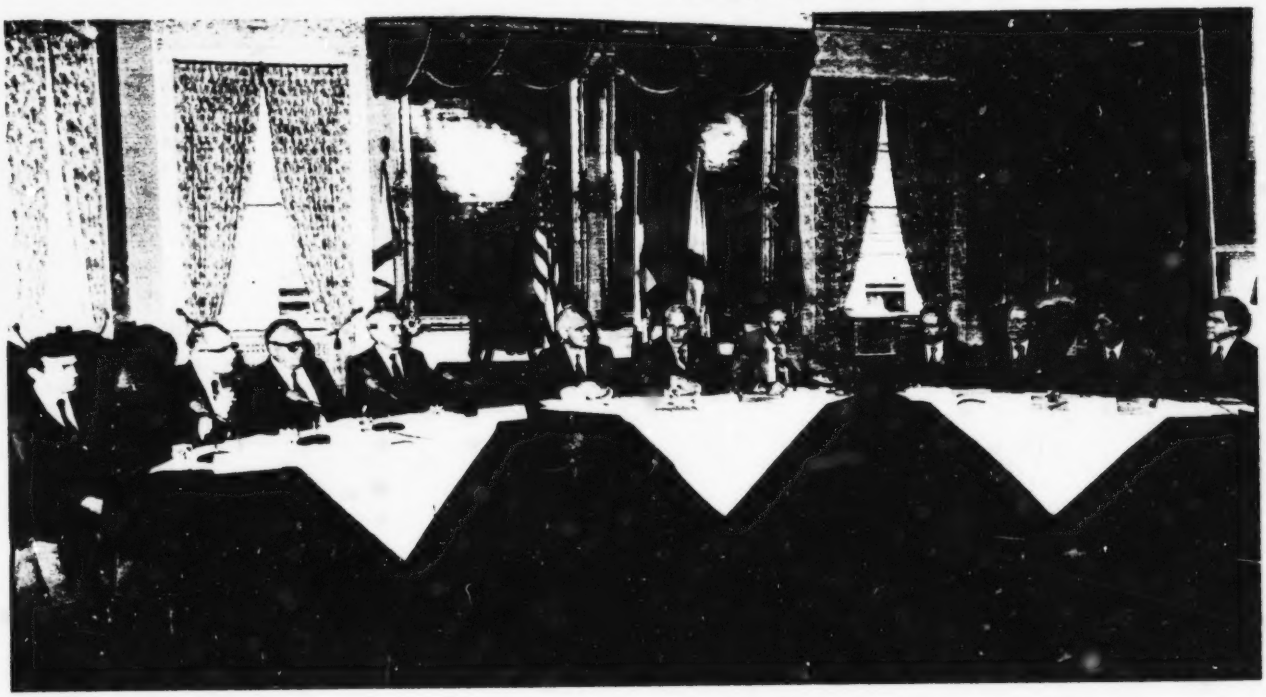
During the year the VGP participants agreed upon an economic model which establishes common parameters for negotiation of a fiscal regime with the federal and Nova Scotia governments to apply to VGP development and production. Discussions are expected to commence in late 1985. The VGP timetable calls for the filing before U.S. regulatory authorities by export gas purchasers of gas import and pipeline construction applications shortly after the VGP participants file their export applications before the National Energy Board. Approval of all regulatory agencies, now forecast for first half 1987 would enable facilities construction to be commenced with a gas on-stream date in 1990.

Increase in Company Interest

Pursuant to agreement with East Coast Energy Limited, the Company purchased East Coast's 1% interest in the VGP and in the remainder of the Mobil-operated Sable Island exploration block, effective February 1, 1985. Accordingly the Company's interest in the VGP and in that block increased on that date from 9% to 10%.

COMMEMORATIVE VENTURE PROJECT GAS SALES CEREMONY

Halifax, N.S. March 29, 1985



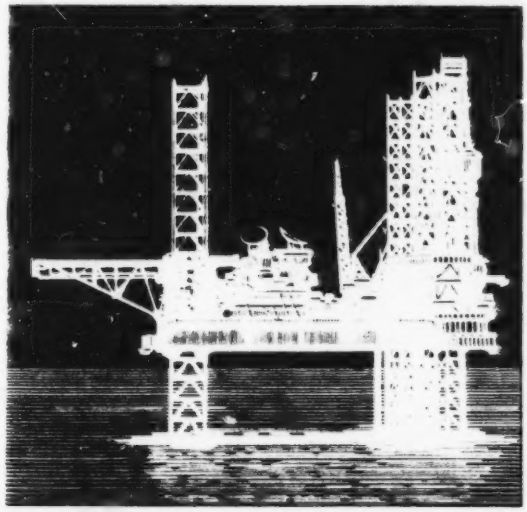
Left to right:
Peter Outhit, President NSRL, W.A. Gatenby, President Texaco Canada Resources, W.A. Hopper, Chairman Petro-Canada, Doyle Marrs, President Mobil Oil Canada, the Hon. Joel Matheson, Minister of Mines and Energy, the Hon. John Buchanan, Premier, the Hon. Elmer MacKay, Solicitor General of Canada, R.D. Morel, President Algonquin Gas Transmission Company, G. Ewing, President Texas Eastern Gas Pipeline, B.E. O'Neill, President TransContinental Gas Pipeline, T. Matthews, Senior Vice President Tennessee Gas Transmission. The ceremony was also attended by the Governors of Maine and Rhode Island and the Premier of Prince Edward Island.

NEB Export Application

Preparation of detailed applications to export to United States markets 300 mmcf/day of Venture project gas over a 20 year term is nearly completed. Each VGP participant expects to file its own application with the National Energy Board in spring 1985, thereby initiating full regulatory consideration of the VGP. The VGP timetable anticipates receipt of NEB approval to export and approval of construction of a Canadian gas transmission system in 1st half 1987.

OIL AND GAS EXPLORATION

In 1984-85 the Company maintained a significant level of exploration offshore Nova Scotia, participating in 6 exploration wells in the Sable Island area — Louisbourg J-47, Dover A-43, South Desbarres 0-76, West Venture C-62, West Venture N-91 and Citadel H-52 — with interests ranging from 9% to 25%. Of these wells, three — Louisbourg J-47, West Venture C-62 and West Venture N-91 — encountered zones indicative of gas potential but for technical reasons could not be fully tested before abandonment. The Dover A-43 and South Desbarres 0-76 wells did not penetrate hydrocarbon-bearing zones. As at March 31, 1985 the Citadel H-52 well was drilling below 15,900 feet and had not yet reached its principal targets. However, the well was subsequently terminated without testing. Further details of each well appear below.



The Company also participated in a $3.6 million seismic program conducted in summer 1984 by Mobil Oil over a portion of the Venture field, the West Venture region and certain areas southwest of Sable Island, including the Cohasset structure.

In fall 1984 the Company began preparations to conduct its first operated offshore activity, a $1.6 million ($320,000 net of PIPs) seismic program of approximately 1600 kilometers. The work will be carried out by the Company's contractor in June 1985 and is designed to define small, subtle closures in Logan Canyon sands draped over the underlying Abenaki carbonate platform edge to the northwest of Sable Island.

Results of the program will be owned exclusively by the Company and utilized in exploration for small oil fields along this promising trend. The PIP grandfathering rules announced in April 1985 render ineligible for PIPs seismic programs not contracted by 20 March, 1985. The Company's program is thus one of the last PIPable seismic activities, which will enhance its value.

Exploration Well Summary:

The following information is added with respect to each exploration well:

Louisbourg J-47, spudded by the Operator, Home Oil, on November 25, 1983 with a target depth of 19,820 feet, was the first well on the East Sable block. The Company owns a 10% direct interest and has farmed out its remaining 10% interest to its subsidiary Canadian Offshore Resources Exploration Limited (COREL). Testing of indicated hydrocarbon-bearing zones commenced July 23, 1984 with bottom hole pressures exceeding 15,000 psi and temperatures above 300°F. Although a small quantity of gas was tested in upper zones, testing of deeper zones could not be carried out under the conditions noted above and the well was terminated due to technical difficulties on October 13, 1984.

Dover A-43 was the first exploration well to be drilled on the 1.1 million acre Abenaki block northwest of Sable Island, operated by Petro-Canada. The Company held a 25% interest in the well, which was drilled to a depth of 14,846 feet without penetrating hydrocarbon-bearing zones. Subsequently the Abenaki block was relinquished to the Crown.

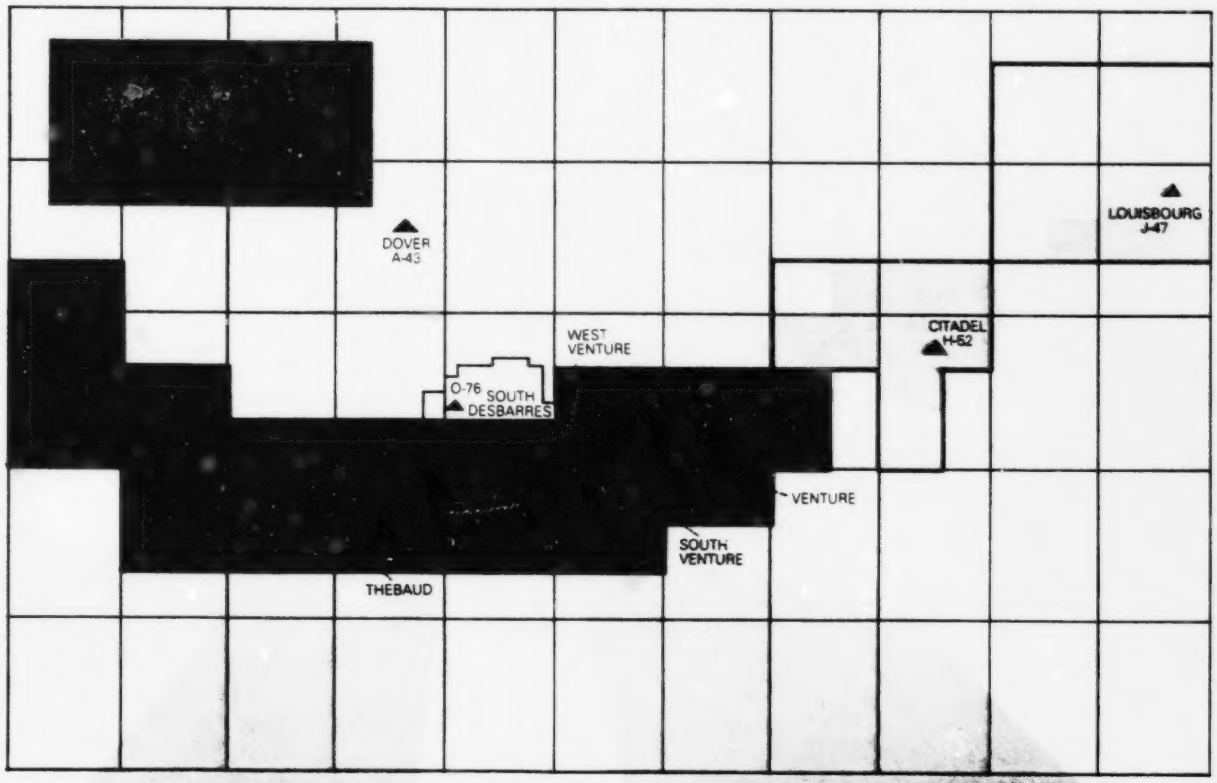
South Desbarres 0-76 was drilled on Shell-operated lands north of Sable Island. The Company paid 10% of well costs to earn a net 5% interest from Petro-Canada in an 18,000 hectare (47,000 acre) grid area containing the structure. The well was drilled to a depth of 19,767 feet but did not encounter hydrocarbon-bearing zones

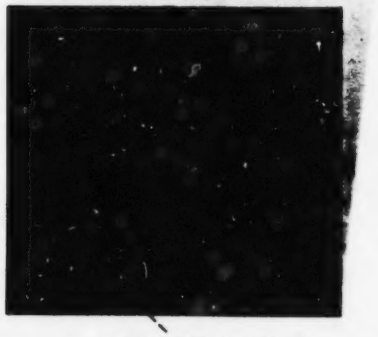
West Venture C-62 and N-91 were exploration wells drilled by Mobil Oil on fault-separated structures just to the west of the Venture gas field. The Company holds a 9% (10% as of 1 February 1985) in the Mobil-operated lands. West Venture C-62 was drilled to a depth of 18,117 feet and penetrated several zones indicative of gas potential. However, tests planned for zones below 16,634 feet were not conducted due to high pressures and mechanical difficulties. Of 4 upper zones tested, 1 zone produced a gas flow of up to 33.5 million cubic feet per day and 160 barrels per day of condensate.

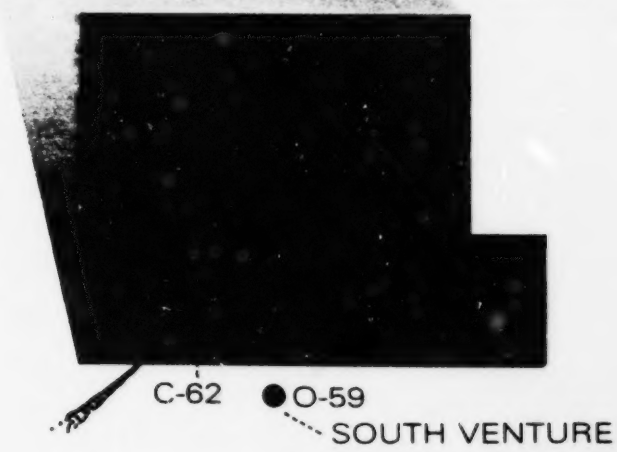
Drilling of the West Venture N-91 well terminated on September 20, 1984 when downhole well control was lost allowing quantities of gas to escape from high pressure deeper zones to upper zones. Progress to regain well control by effecting a "top kill" through snubbing operations has been slow and hampered by drillpipe obstructions, requiring continuous milling and retrieval work. A

relief well (West Venture B-92) was spudded in October 1984, subsequently relocated for technical reasons, and respudded in December 1984 as the West Venture N-1 well. Simultaneously a standby accommodation submersible rig was brought onto the site. The loss of control of N-91 posed no imminent risk to persons nor damage to the N-91 drilling rig but the problem continues to be complex and expensive. The costs of regaining well control have been covered by the Company's insurance policies. As at March 31, 1985 progress continued toward the eventual snubbing of the N-91 well or alternatively the successful completion of the N-1 relief well.

Citadel H-52, the second well drilled on the East Sable block, was spudded by Home Oil utilizing the Glomar Labrador I rig, on December 18, 1984 with a projected total depth of 19,810 feet. Despite promising geology and indications of hydrocarbon potential in several target zones, the well was terminated at a depth of 18,590 feet and abandoned without testing on May 31, 1985. A decision regarding further exploration of the East Sable acreage will be taken later in the year.





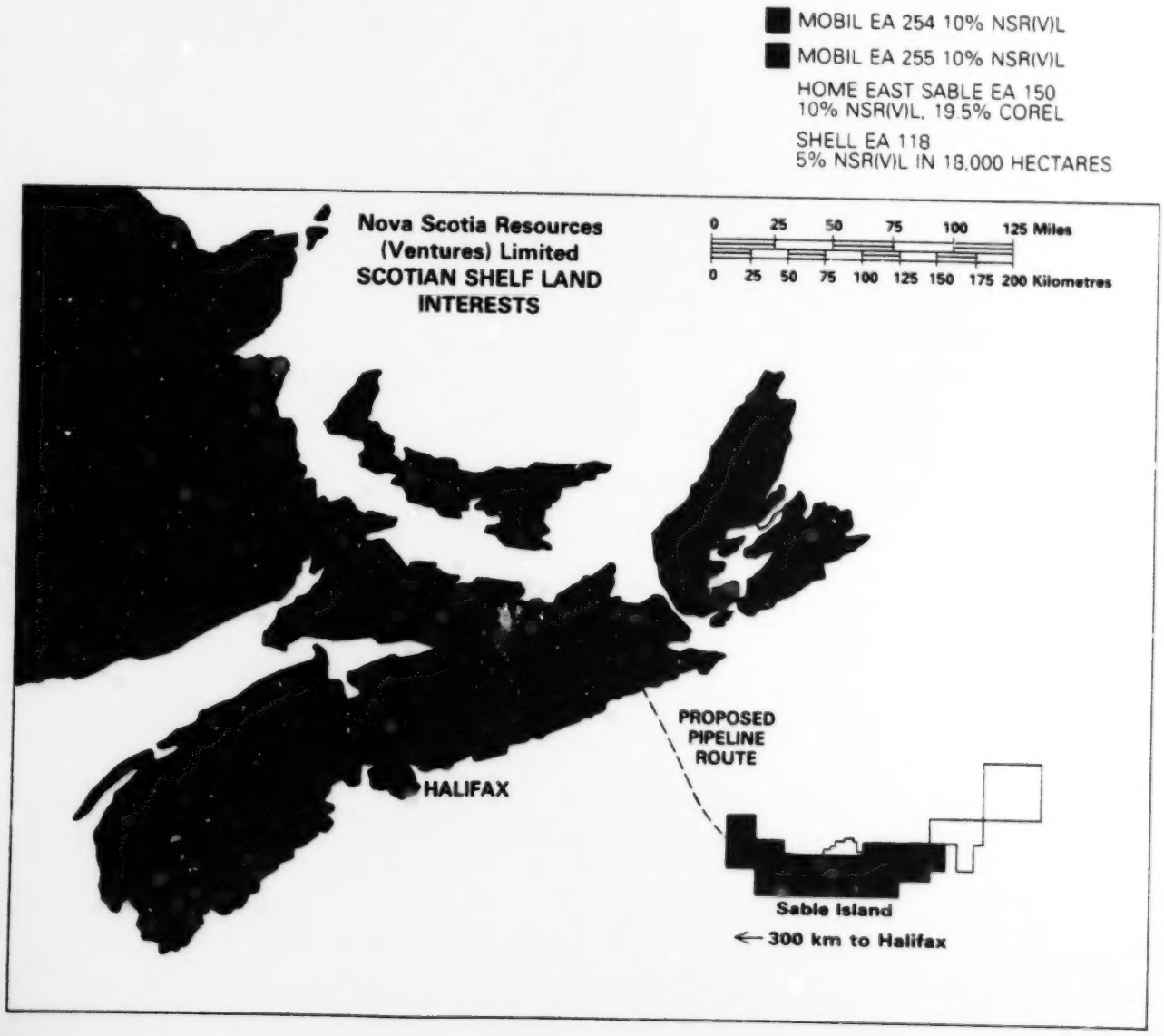


Offshore Land Relinquishment

Exploration Agreements ("EA's") relating to the Sable Island area outside Venture (EA 255) and the Venture Gas Project area (EA 254) are in effect until July 1986 and January 1985 respectively. EA 255 has a 50% acreage relinquishment date scheduled for 45 days following rig release from the Thebaud I-93 well. EA 254 is currently under renegotiation with COGLA and relinquishment requirements will depend upon resolution of the N-91 well problems and finalization of further drilling plans.

The EA for the East Sable block underwent a 50% acreage relinquishment in January 1985. Further rights with respect to this EA remain in effect until 45 days following rig release from the Citadel H-52 well.

Relinquishing parties retain not only 50% of the initial area but areas covering their interest in all structures classified as "significant discoveries" under the Canada Oil and Gas Act or structures within which additional wells are planned. The lands relinquished are subject to future disposition by the Canada/Nova Scotia Oil and Gas Board.



MINERAL EXPLORATION

In November 1984 the Company, through its subsidiary Canadian Offshore Resources Exploration Limited (COREL), agreed to participate in a province-wide mineral exploration consortium, the "SCOMINEX" (Scotian Mineral Exploration) joint venture. COREL holds a 25% participation in the SCOMINEX program, managed by Inco Limited, which is committed to expend a minimum of $3 million on mineral exploration over 3 years.

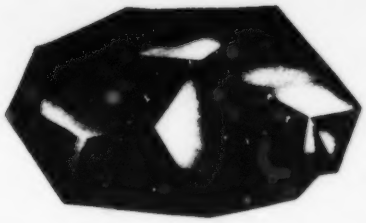
SCOMINEX activity is aimed primarily at gold and associated minerals and includes investigation of lands licenced from the Crown as well as properties acquired from other Nova Scotia mining groups. The program initially involves evaluation of 20 potential areas (see map). As deposits are discovered which merit development, separate mining projects would be established.

Exploration of prospective areas commenced in summer 1984. In January 1985 the consortium, through Inco, acquired an option to purchase a 60% interest in the Cochrane Hill, Guysborough County, gold-bearing area and has carried out an intensive preliminary evaluation of this highly prospective property.

The SCOMINEX joint venture represents the Company's first mineral exploration investment beyond coal mining, the first on-land activity of COREL, and the first exploration activity in Nova Scotia for Inco. The Company is optimistic that the comprehensive SCOMINEX program and the expertise and financial capacity of its participants will lead to significant new gold and mineral developments.

SCOMINEX TARGET AREAS
1984 - 1987 PROGRAM

1. ANTIGONISH HIGHLANDS
2. SOUTH EAST CAPE BRETON
3. CAPE BRETON HIGHLANDS
4. COCHRANE HILL
5. GOLDENVILLE
6. MOLEGA
7. DELANEY SETTLEMENT
8. ARDOISE/RAWDON
9. STIRLING
10. PUBNICO
11. BRENTON
12. MUSQUODOBOIT PLUTON
13. SISSIBOO
14. HALIFAX WEST
15. ROCKY LAKE
16. CAMERON DAM
17. LONG ISLAND
18. EAST BAY HILLS
19. MILLER LAKE
20. TORBROOK



COAL

Through Novaco Limited, the Company continued near-surface coal mining operations at Point Aconi, Cape Breton during the year, achieving a net income of $133,787 on gross coal sales of $6.224 million. Arrangements were concluded between Novaco and the mining contractor, Nova Construction, to enable Point Aconi operations to be economically continued to June, 1985.

To March 31, 1985, the Point Aconi mine had produced a total of 938,702 short tons of coal, almost all of which has been sold to the Nova Scotia Power Corporation for use at its Lingan generation plant. Land reclamation at Point Aconi has proceeded on schedule, with full levelling and hydro-seeding to be completed in summer 1985. Plans include the preparation of a 7.5 acre prime recreational area to be used by the Point Aconi community.

During the year, Novaco evaluated further potential mining opportunities and participated in several local meetings to discuss possible activities in specific areas. As at 31 March 1985 no decision had been taken with respect to further mine sites.

In September 1984, Novaco's President, John Smith, resigned his position to take up other activities. His resignation has been accepted with great regret and deep appreciation for his excellent record of public service. Since that time Novaco administration has been conducted directly through its Board of Directors, with the assistance of a consultant.

SYNFUELS

During the year, feasibility studies and test work by the Scotia Coal Synfuels consortium, in which the Company holds a 19.5% interest, continued in order to evaluate the potential for liquefaction of Cape Breton Lingan Harbour seam coal. The consortium had previously selected a single stage direct coal liquefaction process (H-Coal) for a bench scale test program. This had resulted in yields of approximately 3.7 barrels of liquid hydrocarbons per tonne of coal.

To augment this yield to a more commercially attractive level, it was decided to submit the coal to two-stage liquefaction testing under a process developed by Chevron at its research facilities in San Francisco. The two-stage test program was financed by a combination of consortium equity funding and a $750,000 grant provided by the federal-provincial Oil Substitution Fund.

This work commenced in August 1984 and was terminated in January 1985. The results indicate it will be necessary to conduct further chemical analysis and technical work on Lingan coal and other Cape Breton coals in order to achieve commercial-level liquid yields.

The Synfuels consortium is preparing a detailed report of its feasibility work to be filed with federal and provincial government agencies as of June 30, 1985, and at that time will make recommendations concerning the direction of further liquefaction activities.

Nova Scotia Resources Limited

March 31, 1985

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Consolidated Statement of Changes in Financial Position 4

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Auditors' Report

To the Shareholders of Nova Scotia Resources Limited

We have examined the consolidated balance sheet of Nova Scotia Resources Limited as at March 31, 1985 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended, and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the company, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the financial position of the company as at March 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Halifax, Nova Scotia
May 17, 1985

Chartered Accountants

Nova Scotia Resources Limited

March 31, 1985

		1985	1984* (restated)
ASSETS	Current		
	Cash and term deposits	$ 12,671,888	$ 11,304,246
	Receivables (Note 2)	11,532,639	7,123,286
		24,204,527	18,427,532
	Petroleum and natural gas properties (Note 3)	82,671,569	61,882,742
	Equipment and leasehold improvements (Note 4)	126,385	132,840
	Other assets (Note 5)	597,226	50,228
		$107,599,707	$ 80,493,342
LIABILITIES	Current		
	Bank indebtedness (Note 6)	$ 38,536,796	$ 14,816,325
	Payables and accruals	2,751,767	2,842,870
	Deferred grants (Note 7)	372,674	366,780
		41,661,237	18,025,975
	Bank loans (Note 8)	61,349,527	56,841,231
	Other loan (Note 9)	262,583	377,806
		103,273,347	75,245,012
	Unamortized foreign exchange gain		965,987
	Deferred income taxes	812,556	1,788,101
	Minority interest	2,750,507	763,646
SHAREHOLDER'S EQUITY	Capital stock		
	Authorized		
	40,000 common shares without par value		
	Issued and outstanding		
	3 common shares	3	3
	Retained earnings	763,294	1,730,593
		763,297	1,730,596
		$107,599,707	$ 80,493,342

ON BEHALF OF THE BOARD

DIRECTOR

DIRECTOR

Nova Scotia Resources Limited

Year Ended March 31, 1985

		1985	1984* (restated)
REVENUE			
	Interest	$ 973,889	$ 784,885
	Income (loss) from near surface coal resource operations (Note 10)	133,787	(161,105)
	Other revenue	69,900	117,069
		1,177,576	740,849
EXPENSES			
	Business travel, meetings and promotion	135,875	147,951
	Consulting and other professional fees	166,992	95,947
	Depreciation	32,014	23,440
	Non-capitalized financing charges	505,721	239,008
	Office operating expenses	247,386	203,275
	Salaries and employment expenses	214,044	178,802
	Write off of petroleum property (Note 11)	1,818,388	
		3,120,420	888,423
Loss before income taxes		(1,942,844)	(147,574)
Income taxes (recovery) (Note 12)		(975,545)	95,652
Net loss		(967,299)	(243,226)
Retained earnings, beginning of year (Note 13)		1,730,593	1,973,819
Retained earnings, end of year		$ 763,294	$ 1,730,593

Nova Scotia Resources Limited

Year Ended March 31, 1985

		1985	1984* (restated)
WORKING CAPITAL DERIVED FROM	Proceeds from long term debt	$ 4,393,073	$ 4,809,783
	Proceeds from sale of equipment	7,300	
	Decrease in other assets	23,913	52,634
	Minority interest	1,986,861	763,646
		6,411,147	5,626,063
WORKING CAPITAL APPLIED TO OPERATIONS	Net loss	967,299	243,226
	Depreciation and amortization	(37,113)	(81,373)
	Deferred income taxes	975,545	(95,652)
	Write off of petroleum property	(1,818,388)	
		87,343	66,201
	Purchase of petroleum property	7,200,000	
	Costs incurred on petroleum and natural gas properties	15,407,215	9,817,602
	Costs incurred on mineral properties	158,105	
	Purchase of equipment and leasehold improvements	37,958	23,888
	Increase in unamortized foreign exchange loss	1,378,793	375,754
		24,269,414	10,283,445
Decrease in working capital		(17,858,267)	(4,657,382)
Working capital, beginning of year		401,557	5,058,939
Working capital (deficiency), end of year		$ (17,456,710)	$ 401,557

Nova Scotia Resources Limited

March 31, 1985

1.
Accounting policies

(a)
Principles of consolidation

The consolidated financial statements include the accounts of the following subsidiary companies:

Nova Scotia Resources Exploration Limited	100% owned
Nova Scotia Resources (Ventures) Limited	99.99% owned
Novaco Limited	100% owned
Canadian Offshore Resources Exploration Limited	53.226% owned

(b)
Investments

The Company has adopted the successful efforts method of accounting for oil, gas and mineral operations. Under this method all costs incurred in acquiring, exploring for and developing oil, gas, mineral and related reserves are capitalized on a prospect block basis. Petroleum incentive program grants received are applied against the capitalized costs of the prospects. Interest charges and realized foreign exchange gains and losses on the debt incurred for acquisition, exploration and development of the prospects and other expenses relating directly to the prospects are capitalized as a cost of the prospects.

Capitalized costs are to be amortized using the unit of production method based on estimated proven recoverable reserves. If a block is surrendered or the results of drilling do not warrant further exploration, all capitalized costs relating to that block will be expensed. No amortization has been charged for the current year.

(c)
Site development cost — Near surface coal resource operations

All costs relating to the original acquiring, defining and preparation for production of a site are expensed in the year in which they are incurred.

(d)
Joint venture accounting

The Company's exploration and production activities are conducted jointly with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

(e)
Depreciation

Depreciation on equipment and leasehold improvements is recorded using the following rates:

Administration assets	20% declining balance
Furniture and equipment	30% declining balance
Computer software	8 years straight-line
Leasehold improvements	
Coal operations	5 years straight-line
Furniture and equipment	2 - 3 years straight-line
Vehicles	

(f)
Foreign currency transactions

Accounts in foreign currencies have been converted to Canadian currency on the following basis:

i) current assets and current liabilities at the exchange rate on March 31, 1985
ii) long term debt at the exchange rate on March 31, 1985 and
iii) petroleum and natural gas properties, other assets and liabilities, revenues and expenses at the exchange rate in effect on the date of the transaction.

(g)
Income taxes

The Company's subsidiary, Nova Scotia Resources (Ventures) Limited, has received an advance income tax ruling from Revenue Canada which has confirmed that it is subject to tax under Part 1 of the Income Tax Act of Canada.

The Company follows the tax allocation method of accounting for income taxes. Under this method deferred income taxes are recorded to the extent that income taxes otherwise payable are deferred by claiming capital cost allowance and exploration and development costs for income tax purposes in excess of the depletion, depreciation and amortization provisions in the accounts.

2.
Receivables

	1985	1984
Grants under the Petroleum Incentives Program	$ 3,534,337	$ 6,238,242
Provision for insurance claim	7,307,230	
Other amounts	691,072	885,044
	$11,532,639	$ 7,123,286

3.
Petroleum and natural gas properties

	1985				1984
	Acquisition of Interest	Exploration Costs	Pre-Development Costs	Total	Total (restated)
Sable Island Block	$ 62,073,592	$ 10,781,744	$ 3,256,677	$ 76,112,013	$ 60,015,802
East Sable Block	1	5,420,028		5,420,029	1,866,940
South Desbarres Block		1,139,527		1,139,527	
	$ 62,073,593	$ 17,341,299	$ 3,256,677	$ 82,671,569	$ 61,882,742

The cost of the above properties include $10,843,544 of interest expense, $1,661,077 of net foreign exchange gains, $514,108 of consulting, legal, and salary expense and $45,531,332 of petroleum incentive payments which have been capitalized as a cost of acquiring and developing the properties. In addition, the cost has been reduced by the $818,038 forgiven loan as outlined in Note 9.

During the year the Company purchased from East Coast Energy Ltd. a 1% working interest in the Sable Island Block of the Scotian Shelf for $7 million. This purchase has increased the Company's working interest in the block from 9% to 10%.

4.
Equipment and leasehold improvements

	1985			1984
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Furniture and equipment	$ 113,626	$ 55,940	$ 57,686	$ 40,109
Computer software	2,336	701	1,635	
Leasehold improvements	107,020	39,956	67,064	80,477
Buildings				10,600
Vehicles	10,044	10,044		1,654
	$ 233,026	$ 106,641	$ 126,385	$ 132,840

5.
Other assets

	1985	1984
Mineral properties	$ 158,105	$
Unamortized foreign exchange loss	412,806	
Sundry	26,315	50,228
	$ 597,226	$ 50,228

The Company's investment in mineral properties is represented by a working interest in the Scotian Mineral Exploration Venture which gives the Company the right to acquire exploration licenses under the Inco-Acadia Mineral Joint Venture Agreement dated June 30, 1984. These capitalized costs represent the Company's share of exploration costs incurred to March 31, 1985 plus interest which has been capitalized as a cost of developing the properties.

The unamortized foreign exchange loss represents the portion of the foreign exchange losses on the $52 million loan, outlined in Note 8, which has not yet been amortized. The gain/loss is being amortized on a straight line basis over the five year term of the loan which matures on May 31, 1987.

6.
Bank indebtedness

The Company has arranged to borrow funds on a multi-currency option basis from the Canadian Imperial Bank of Commerce at varying terms and interest rates. As at March 31, 1985 the outstanding balance of the loan was 73,291,670 in Swiss Francs ($38,536,796 in Canadian currency).

7.
Deferred grants

The Company, through its subsidiary Novaco Limited, has received grants from the Province of Nova Scotia for the purpose of defraying expenses relating to the acquisition of surface rights for proposed projects. As of March 31, 1985, Novaco Limited has received $584,000 in grants and incurred $211,326 in costs relating to these acquisitions. The remaining $372,674 of the grants has been deferred and will be taken into income when related expenditures are incurred.

8.
Bank loans

The Company has borrowed 84,925,690 in Swiss Francs (equivalent of Canadian $52 million) which has been advanced to its subsidiary, Nova Scotia Resources (Ventures) Limited, for the purpose of purchasing a 10% working interest in the petroleum and natural gas licenses in the Sable Island Block of the Scotian Shelf. The borrowing of principal and interest has been guaranteed by the Minister of Finance on behalf of the Province of Nova Scotia.

The Company has borrowed the funds on a multi-currency option basis from the Bank of Nova Scotia for a five year term maturing May 31, 1987 and is currently paying interest at a rate of 6 7/16%, adjusted quarterly. The interest incurred by the Company is being accrued and added to the liability. The balance of the loan at March 31, 1985 has been adjusted to reflect the gains and losses resulting from changes in the U.S. dollar and Swiss Franc exchange rates. As at March 31, 1985 the Company owed 114,372,720 Swiss Francs representing principal and accrued interest to that date. The Swiss Franc loan has been converted to its Canadian dollar equivalent using the exchange rate as at March 31, 1985.

9.
Other loan

The Company's subsidiary Nova Scotia Resources (Ventures) Limited acquired a majority ownership in Canadian Offshore Resources Exploration Limited (COREL). As part of the agreement, the minority shareholder, Inco Limited has agreed to loan the Company up to $750,000 for each of two exploratory wells being drilled in the East Sable Block of the Scotian Shelf.

Repayment of each of the two loans is dependent upon whether a Significant Discovery of oil or natural gas is made on the well site to which each loan relates. Interest is calculated at the prime interest rate accruing from the date on which the funds were advanced and up to the date of repayment. If there is no Significant Discovery then the loans will be forgiven by Inco Limited, at which time the advanced funds will be offset against the cost of petroleum properties. The loan is to be repaid or forgiven once COREL has performed all of its obligations under its existing Farmout Agreement dated September 22, 1983.

During the year the first well drilled was determined not to be a Significant Discovery. As a result, $750,000 of advances from Inco Limited and $68,038 of accrued interest were forgiven.

Subsequent to the year end, the second well drilled was determined not to be a Significant Discovery. The forgiveness of the advances on this loan will be recorded in the upcoming year.

10.
Near surface coal resource operations

	1985	1984
Sales	$ 6,223,597	$ 9,818,764
Cost of sales	5,825,599	9,690,293
Gross profit	397,998	128,471
Expenses	412,657	590,357
	(14,659)	(461,886)
Other revenue	148,446	300,781
Income (loss) from near surface coal resource operations	$ 133,787	$ (161,105)

11.
Write off of petroleum property

During the year the Company relinquished to the Crown its rights in the Abenaki Block of the Scotian Shelf as the results of drilling did not support retention of the land. Therefore all costs associated with this property have been written off.

12.
Income taxes

The income tax recovery of $975,545 represents a reduction in the deferred income tax credit calculated on the operating loss of $1,858,890 of one of the Company's subsidiaries, Nova Scotia Resources (Ventures) Limited. Other companies included in this consolidated statement have reported an operating loss for the year thereby increasing the operating loss of the Company on a consolidated basis to $1,942,844.

13.
Comparative figures

The comparative figures for 1984 and prior years have been restated to adjust the amount of interest and foreign exchange gains that have been capitalized as a part of the carrying value of petroleum and natural gas properties. When the Company sold 10% of its working interest in the Sable Island Block of the Scotian Shelf the proceeds of the sale were not used to repay the loan from Nova Scotia Resources Limited. Therefore, the interest and foreign exchange gains relating to 10% of the loan should be charged to income. In that regard, the investment in petroleum and natural gas properties have been reduced by $421,547, deferred taxes have been reduced by $221,228, and retained earnings have been reduced by $200,319. As a result of this adjustment, net income for 1984 has been reduced by $109,766 and net income of years prior to 1984 has been reduced by $90,553.

14.
Commitments

(a) The Company, through its subsidiaries Nova Scotia Resources (Ventures) Limited and Canadian Offshore Resources Exploration Limited, has entered into various agreements whereby it has acquired working interests in the petroleum and natural gas rights in the East Sable Block, Sable Island Block and the South Desbarres Block of the Scotian Shelf. Through these acquisitions, the Company has become a working interest owner in the prospects and is therefore liable for its portion of the future exploration costs on the rights.

(b) The Company, through its subsidiary Novaco Limited, has agreed to enhance its reclamation of the Point Aconi near surface mining site to include recreational facilities. The cost of these additional facilities has not been determined, and could exceed the amount available in the reclamation fund.

15.
Contingency

(a) With regard to the Company's purchase from British Columbia Resources Investment Corporation:

(i) it has been asserted by Petro-Canada that the Company is responsible for payment of a 25% portion of a $4 million shortfall, before allowing for petroleum incentive grants of $3.2 million, relating to the earning obligations of Petro-Canada under an Agreement with Mobil Oil Canada (the "West Sable Agreement"), and

(ii) it has been asserted by British Columbia Resources Investment Corporation that the Company is responsible for additional costs due to discrepancies in accounting for the cut-off of this acquisition.

It is management's opinion that the Company is not liable under either of these assertions and accordingly has made no provision for any liability in respect of this matter.

(b) In prior years, the Company through its subsidiary Novaco Limited, has conducted exploratory mining at Springhill, but reclamation of the lands disturbed was not undertaken or provided for. Another company is proposing to conduct underground mining at the same site. If this proposal is approved, Novaco is not responsible for reclamation. If a mining lease is not granted, Novaco will be responsible for reclamation of the near surface mining area. The cost of this reclamation has not been determined. This matter will be accounted for in the year that the outcome is determined.

16.
Losses

The Company, through its subsidiary Nova Scotia Resources (Ventures) Limited, has losses carried forward for income tax purposes totalling $9,344,500. The tax benefits related to these loss carry forwards have not been taken into account in the determination of deferred income taxes. These losses will expire as follows unless applied against taxable income of the Company before that date.

March 31, 1990	$2,079,095
March 31, 1991	$2,633,032
March 31, 1992	$4,632,373

17.
Future operations of Novaco Limited

Coal mining operations at Port Aconi are expected to cease in June, 1985. No other mining sites are in operation or have been approved.

Nova Scotia Resources Limited

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Halifax, N.S.

C. Mark Cleary
President
Western Electrics Ltd.
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Ronald B. Coleman
President
Robco Resources
Calgary, Alberta
(subsequently President, R.B. Coleman Consulting Co. Ltd.)

Purdy Crawford, Q.C.
Barrister & Solicitor
Osler, Hoskin & Harcourt
Toronto, Ontario
(effective June 27, 1985 appointed President Imasco Limited, Montreal, Quebec)

John J. Laffin
Deputy Minister
N.S. Department of Mines and Energy
Halifax, N.S.

Thomas Lynch
President
Lynch Investments Limited
Halifax, N.S.

James D. McNiven
Deputy Minister
N.S. Department of Development
Halifax, N.S.

Hon. John E. Shaffner *
Retired
(Former Lieutenant Governor of Nova Scotia)
Port Williams, N.S.

* Appointed to Board of Directors April 1, 1985

President and Chief Executive Officer
Peter A. Outhit
Halifax, N.S.

Vice President
A. Lee Horne
Halifax, N.S.

Secretary
Joseph A.F. Macdonald
McInnes, Cooper & Robertson
Halifax, N.S.

Subsidiaries and Affiliates

Nova Scotia Resources Exploration Limited	100%
Nova Scotia Resources (Ventures) Limited	99.99%
Novaco Limited	100%
Canadian Offshore Resources Exploration Limited (COREL)	53.226%

Major Joint Ventures

Sable Island Exploration Joint Venture	10%
East Sable Area Joint Venture	20.34%*
Scotia Coal Synfuels Project	19.5%
Scominex Joint Venture	13.3%*

*Interest held wholly or partially through COREL

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